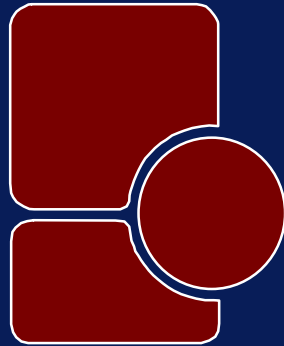


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**VRS Biennial Status and
Semi-Annual Investment Report**

**JLARC Staff Briefing
December 13, 1999**

VRS Oversight Act

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- Section 30-78 *et seq.* of *Code of Virginia* requires JLARC to oversee and evaluate VRS on a continuing basis
- Areas for review and evaluation include:
 - Actuarial policy and actuarial soundness
 - Structure, governance, administration, and management
 - Biennial status report required
 - Investment practices, policies, and performance
 - Semi-annual investment report required

Semi-Annual Investment Report

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- The market value of the fund's assets as of September 30, 1999 was \$34.9 billion
- The fund's one year investment performance relative to its benchmark has improved substantially since the July 1999 report
 - The one year investment returns underperformed the benchmark by only 0.8 percentage points
 - The fund's 15.8 percent three year and 16.4 percent five year investment returns exceeded established benchmarks
- The fund's investment return for the 10 year period ending September 30, 1999 was 11.9 percent

Governing Structure Works as Intended

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- The investment and financial expertise of some trustees is complemented by other trustees who are VRS members
- Independent agency status has provided management greater flexibility in improving internal operations
- Since 1996, several initiatives to improve benefits administration or the delivery of services to members have been completed
 - At the same time, VRS has had to implement several complex changes to the benefit structure

FY 2001 and FY 2002 Rates Reflect Full Funding of COLA

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- In 1997, the VRS Board of Trustees presented rates that would prefund the COLA by FY 2002 as required by statute
- The Board certified rates for FY 2001 and FY 2002 were generally lower than the phase-in rates
 - The rates certified by the Board fully prefunded the COLA two years earlier than anticipated
- The rates for the Judicial Retirement System and State Police Retirement Systems are generally higher than the COLA phase-in rates to improve the funding status of these two systems

FY 2001 and FY 2002 Rates Reflect Full Funding of COLA

(continued)

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- **Several recent policy changes and benefit enhancements have been included in the FY 2001 and FY 2002 rates**
 - Twenty-eight year amortization of the unfunded liability
 - The 1.7 percent benefit multiplier
 - 50/30 retirement provision
- **Rates for 95 percent of the participating political subdivisions also reflect full prefunding of the COLA**
 - More than 370 political subdivisions will experience rate reductions in FY 2001 and FY 2002

VRS Pension Funding Continues to Improve

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- VRS funding status has improved substantially since 1994 when the funding percentage was 73 percent
 - As of the June 1998 actuarial valuation, the funding percentage was almost 88 percent
- While lower than VRS, the funding status for the State Police Retirement System and the Judicial Retirement System has also improved

Retiree Health Insurance Credit and Group Life Insurance Rates

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- New rates for the retiree health insurance credit include the impact of a number of factors
 - The increase in the monthly maximum benefit payment
 - The FY 2000 “premium holiday” for the State employee health credit contributions
 - Board of Trustees adoption of funding credit on an actuarial basis instead of a pay-as-you go approach
- New group life insurance rate is only slightly higher than the FY 1999 and FY 2000 rates
 - Only once since FY 1990 has the actuarially determined rate been fully funded

Modifications to Enhance the Deferred Compensation Program

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- **Several changes to the deferred compensation program were implemented during 1999**
 - Investment options were increased from eight to 13
 - Investment management fees were reduced significantly
 - Fourth tier or mutual fund window will be added in the future
- **Employer cash match for the deferred compensation program was authorized by the 1999 General Assembly**
 - Board of Trustees has adopted an employer cash match rate of \$10 per pay period